

VZCZCXYZ0000
RR RUEHWEB

DE RUEHRB #0073/01 0180744
ZNR UUUUU ZZH
R 180744Z JAN 06
FM AMEMBASSY RABAT
TO RUEHC/SECSTATE WASHDC 2503
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOG/USDOC WASHDC
RUCPCIM/CIMS NTDB WASHDC
INFO RUEHCL/AMCONSUL CASABLANCA 1098

UNCLAS RABAT 000073

SIPDIS

SIPDIS

STATE FOR EB/IFD/OIA
STATE PLEASE PASS TO USTR
USDOC FOR MAC/ANESA
TREASURY FOR OASIA

E.O. 12958

TAGS: [EINV](#) [ETRD](#) [EFIN](#) [ELAB](#) [OPIC](#) [KTDB](#) [PGOV](#) [MO](#)

SUBJECT: MOROCCO 2006 INVESTMENT CLIMATE STATEMENT

REF: 05 STATE 202943

THE FOLLOWING IS THE 2006 INVESTMENT CLIMATE STATEMENT

A.1. Openness to Foreign Investment

The Moroccan government actively encourages foreign investment and is taking measurable steps to improve the investment climate for foreign and domestic investors. Moroccan officials hope that the implementation of the U.S.-Morocco Free Trade Agreement (FTA) on January 1, 2006 will encourage more U.S. investors in Morocco to take advantage of duty-free access to both the U.S. and European markets. In addition to tariff elimination, the FTA with Morocco includes investment provisions and commitments to increase access to the Moroccan services sector for American firms.

King Mohamed VI and the present government have made attracting foreign and domestic investment a high priority. With the assistance of the U.S. Agency for International Development (USAID), the government is streamlining paperwork associated with investment and has established a series of Regional Investment Centers to decentralize and accelerate investment-related bureaucratic procedures.

The October 1995 investment code applies equally to foreign and Moroccan investors, with the exception of foreign exchange provisions, which favor foreign investors. Foreign investment is now permitted in most sectors, with the notable exception of phosphate mining. Foreign investment is permitted in the agricultural sector, although foreigners are prohibited from owning agricultural land. The law does allow for long-term leases of up to 99 years; it also allows agricultural land to be purchased if it will be used for non-agricultural uses, e.g. tourism.

Morocco welcomes foreign participation in its privatization program, and does not pre-screen or select foreign investment projects.

A.2. Conversion and Transfer Policies

The Moroccan dirham is convertible for all current transactions and for some capital transactions, notably capital repatriation by foreign investors if the original investment is registered with the foreign exchange office. Foreign exchange regulations allow expatriate employees to repatriate 100 percent of their salaries.

Foreign exchange is readily available through commercial banks for the repatriation of dividends and capital by foreign investors, for remittances by foreign residents, and for payments for foreign technical assistance, royalties and licenses. No prior government approval is required.

The Central Bank sets the exchange rate for the dirham against a basket of currencies of its principal trading partners. In April 2001, the exchange rate was effectively devalued by five percent as a result of a realignment of the basket of currency. However, the dirham has appreciated in relation to the dollar since 2003 due to strong influence of the Euro in Morocco's currency basket. Changes in the rates of individual currencies reflect changes in cross rates. Many international and domestic observers believe that the dirham is overvalued.

A.3. Expropriation and Compensation

There have been no significant expropriations in Morocco since the early 1970s. The Embassy is not aware of any recent, confirmed instances of private property being expropriated for other than public purposes, or being expropriated in a manner that is discriminatory or not in accordance with established principles of international law.

A.4. Dispute Settlement

The Embassy is not aware of any U.S. companies currently involved in investment disputes with the Moroccan government.

Minor disputes are generally resolved with the relevant government agency. There is a consensus among Moroccan business leaders that the recent establishment of a network of commercial courts has somewhat improved commercial law operations, although enforcement of decisions still seems to be a problem. Morocco is a member of the International Center for the Settlement of Investment Disputes (ICSID) and a party to the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards (with reservations) and the 1965 Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

A.5. Performance Requirements/Incentives

There are no foreign investor performance requirements or requirements regarding local value added, substitution of imports or employment of Moroccan workers. Incentives for foreign investors have been created under the Free Trade Zone laws, as well as under the Investment Code for large-scale investments. Incentives can include reduced land acquisition costs and tax breaks. Also, if the value of a foreign investment is more than USD 21.5 million, investors can sign a special investment contract with Morocco that brings additional negotiated incentives. In addition, the Moroccan government offers specific incentives relating to tourism designed to help Morocco achieve the goal of attracting 10 million tourists by 2010.

American citizens may enter Morocco for a period of three months without a visa. A residence permit is required to remain in Morocco for more than three months. Resident foreigners who wish to travel outside the country and return to Morocco must apply for a return visa that is valid for one year. However, American citizens are exempt from this provision.

A.6. Right to Private Ownership and Establishment

Private ownership is permitted in all but a few sectors that are specifically reserved for the state, such as phosphate mining, power generation and foreign ownership of agriculture land (except when purchased for use in on-agricultural enterprises, e.g. tourism). The government passed a law in February 2003 liberalizing the audiovisual sector and lifting the government monopoly over all radio and television transmissions; although it may take some time before new radio and television stations actually begin operating. Apart from these few exceptions, private entities may freely establish, acquire, and dispose of interests in business enterprises.

A.7. Protection of Property Rights

The U.S.-Morocco FTA, in force as of January 1, 2006, contains some of the strongest Intellectual Property protections in any free trade agreement. In December 2005, the Moroccan parliament passed amendments to its existing intellectual property legislation that bring Morocco into compliance with the FTA Intellectual Property provisions. Morocco has a non-discriminatory legal system that is accessible to foreign investors. The commercial courts, established in 1998, have begun to mitigate the weakness in commercial proceedings. A system of commercial arbitration was also created in April 1998.

Secured interests in property are recognized and enforced through the "Administration de la Conservation Foncière." The GOM has also passed a law permitting the development of a secondary mortgage market.

A.8. Transparency of the Regulatory System

Although not perfect, Morocco's regulatory system is becoming increasingly transparent. One of the most important reforms in recent years is the requirement that significant government projects must be publicly announced through a competitive call for tender. Liberalization of the foreign exchange allocation system, the import regime,

and the financial services sector has also reduced the government's role in the economy.

In accordance with the provisions of the FTA, the government is working to ensure that its procedures are transparent, efficient and quick. Still, routine permits, especially those required by local governments, can be difficult to obtain. In response to these problems, the government has launched reforms to streamline bureaucratic procedures.

A.9. Efficient Capital Markets and Portfolio Investment

The Moroccan government has adopted a number of measures to liberalize the banking system in recent years. While these reforms have introduced additional competition in the banking sector, in practice, banks do not compete extensively on deposit and lending rates, except for large customers. In January 2005, the Moroccan parliament passed a bill granting the Central Bank greater autonomy. Morocco also passed a comprehensive financial sector bill in 2005 designed to strengthen banking supervision and improve risk management practices in the banking sector.

Credit is allocated on market terms, and foreign investors are able to obtain credit on the local market. There are some cross-shareholding arrangements, but they are not tailored to exclude foreign investment. The Embassy has not heard of any efforts by the private sector or industry to restrict foreign participation in standard setting organizations. The government has actively sought out the participation of foreign investors for discussions on improving the business climate in Morocco.

Moroccan banks are generally sound, reflecting in part the limited competition within the sector, or from other financial institutions, e.g. a corporate bond market. While the overall rate of non-performing assets in the banking system is 12.0 percent, a 13.5 percent cap on the interest banks can charge on all credits restricts local banks from lending to higher categories of risk.

Some foreign banks are critical of what they view as a lack of proportionate participation in the Moroccan Bankers' Association. Moroccan banks are largely in compliance with the Basel I standards and seem poised to be stay up to date with Basel II compliance, which the Moroccan Central Bank will require by 2008. Banks are supervised on a consolidated basis and must provide statements audited by certified public accountants. Morocco is moving to enact a comprehensive anti-money laundering law in line with FATF and Egmont Group recommendations.

The Casablanca Stock Exchange (CSE) was founded in 1929 and re-launched as a private institution in 1993. The Exchange prospered during the early 1990s, but from late 1998 through 2002 suffered a long, severe bear market, markedly reduced trading volumes, a decline in listings to approximately 50 companies and a reduction of market capitalization to the equivalent of USD 8.3 billion at the end of 2002 at same year rates.

A marked rebound in 2003 followed by healthy performance in 2004 and 2005 reflect a return in investor confidence. Market capitalization at end 2003 increased to MAD 115.5 billion or USD 13.2 billion at current rates, a 32.5 percent increase in local currency terms and a 60 percent increase in dollar terms over 2002. Performance (end 2004) was strong with the market up roughly 12 percent over 2003 in local currency terms, and roughly 17 percent in dollar terms. 2005 market capitalization increased MAD 12.4 billion to reach MAD 253.3 billion or USD 29 billion.

A.10. Political Violence

A series of terrorist bombings took place in Casablanca on May 16, 2003. U.S. Government facilities were not the target of these attacks, and no Americans were killed or injured. Moroccan security services have moved quickly and effectively to round up terrorists associated with the May 16 attack, but the potential for further attacks remains.

Demonstrations occur frequently in Morocco and usually center on domestic issues. During periods of heightened regional tension, large demonstrations may take place in major cities. Although these demonstrations have been peaceful, well organized, and well controlled by the police, some have been anti-American with isolated incidents of violence. The last instance of mass domestic political violence was rioting in Fez in December 1990.

The sparsely settled Western Sahara was long the site of armed conflict between the Moroccan government and the Polisario Front, which demands independence. A cease-fire

has been in effect since 1991 in the U.N. administered area, but the territory remains disputed between Morocco, Algeria, and the Polisario, and lack of resolution to the dispute hampers economic and political integration in the region.

A.11. Corruption

Morocco has a broad body of laws and regulations to combat corruption. Corruption nevertheless exists and U.S. companies have at times identified it as an obstacle to doing business in Morocco.

The previous government of Prime Minister Yousoufi made efforts to strengthen transparency and the rule of law. It initiated cooperation with Moroccan civil society and business organizations as well as with the World Bank and foreign donors on measures to fight corruption more effectively and launched a high-profile public education campaign. Since coming to power in 2002, the new government of Prime Minister Jettou has continued to support such efforts; however it is worth noting Morocco has fallen precipitously in ranking by the Transparency International corruption index over the past four years, from 52nd in 2002 to 78th place in 2005. The worsening of corruption is well publicized in Morocco and Transparency International attributes the dramatic increase to weak enforcement of anti-corruption related laws.

Offering and accepting bribes are illegal in Morocco. Punishments range from fines to jail sentences. Bribes to a foreign official are not tax deductible.

B. Bilateral Investment Agreements

The U.S. and Morocco are party to a comprehensive Free Trade Agreement (FTA) to provide duty free access to over 95% of goods and services. The agreement also opened up investment opportunities in government procurement, e-commerce, telecommunications and financial services. The FTA's investment rules, including increased transparency in rules and regulations, protections against nationalization, ability to repatriate profits and assurances of non-discriminatory "national treatment", build upon previous agreements. The U.S. Morocco FTA went into effect on January 1, 2006.

Morocco also recently completed a Free Trade Agreement with Turkey that also came into effect on January 1, 2006 and is expected to complete the Agadir Initiative, a free trade agreement with Tunisia, Egypt, and Jordan.

C. OPIC and other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC) is a self-sustaining, U.S. government agency that encourages U.S. Businesses to invest in developing countries and emerging market economies. OPIC's key products are loan guarantees, direct loans and investment insurance against foreign political risk, expropriation and convertibility. Morocco has had an OPIC agreement since 1961, which was most recently updated in March 1995. Similar agreements are in effect with the agencies of France, Sweden, the United Kingdom, and Switzerland. Morocco is also a member of the Multilateral Investment Guarantee Agency (MIGA) and the Kuwait-based Arab Investment Guarantee Organization (OAGI).

D. Labor

Once strong and politically influential, the Moroccan trade union movement is now fragmented and no longer possesses the political clout it carried 45 years ago when it helped lead the country to independence. Nevertheless, five of the 19 trade union federations retain the potential to influence political life. Although unions claim a higher membership, Morocco has about 600,000 unionized workers, less than six percent of the 10.9 million workforce.

Moroccan labor law and practice draw from French models. Labor law makes firing workers for cause cumbersome. Tripartite negotiations between government, management, and labor resulted in a new Labor Code that went into effect on June 7, 2004. The government continues to rely on a tripartite process to reach accords on a reduction in the workweek from 48 to 44 hours, and on a 10 percent increase in the minimum wage. The new labor code details restrictions on the number of overtime hours worked per week and rate of pay for holidays, nightshift work, and routine overtime.

Morocco has ratified the International Labor Organization (ILO) convention covering the right to organize and bargain collectively, and any group of eight workers can organize. Article 14 of the Constitution gives workers the right to strike, but no detailed law exists to define it. For a union to engage in collective bargaining it must have at

least 35 percent of the enterprise's workforce as registered members. The Ministry of Interior occasionally intervenes, especially if the government believes strategic interests are threatened. There are mandatory procedures governing the settlement of disputes, though the government settles them on a case-by-case basis. The number of workdays lost to strikes has diminished markedly from over 135,000 in 2000 to less than 23,500 in 2004.

The official national unemployment figure is 11.0 percent with urban unemployment at approximately 18.0 percent. The minimum wage is currently 2,010 dirhams per month, approximately 240 USD.

1E. Foreign Trade Zones/Free Ports

There is a free trade zone in Tangier in northwestern Morocco. The zone is open to both Moroccan and foreign companies. The companies located in the zone may import goods duty free and are exempt from other taxes. Moroccan labor laws apply to the zone, but few, if any, firms are unionized. There is also an offshore banking law covering Tangier.

Foreign Direct Investment Statistics

The Moroccan foreign exchange office maintains balance of payments statistics that include annual foreign exchange inflows for private foreign investment. These statistics differentiate between foreign direct investment (purchases of companies or increases in capital), portfolio investment, and short-term financing for current account expenditures (e.g. lending to a subsidiary for purchases of equipment). There are no statistics on the stock of foreign investment in Morocco. However, foreign direct investment totaled approximately 8.4 billion USD from 1967-2001. The following tables are based on the balance of payments statistics.

Foreign direct investment in Morocco (millions of USD)

Year	Total FDI	Percent of GDP
1997	800.9	3.3
1998	384.6	1.1
1999	945.6	2.7
2000	245.8	0.8
2001	2732.2	8.0
2002	555.6	1.3
2003	2430.0	5.5
2004	1070.5	2.2
2005 (proj)	2133.6	4.1

Private Foreign Investment Inflows* by Country of Origin (Millions of USD)

Country	2000	2001	2002	2003	2004
United States	35.4	83.2	37.2	53.1	77.8
France	186.6	2474.3	210.1	316.9	822.9
Spain	56.7	85.7	34.7	1896.4	59.4
Germany	18.5	23.8	42.9	15.6	58.5
United Kingdom	49.3	26.7	29.9	29.2	57.0
Netherlands	229.3	15.3	20.2	7.7	14.9
Benelux	25.9	9.7	28.2	29.4	43.2
Saudi Arabia	13.5	7.4	14.8	17.1	86.2
Switzerland	23.8	41.6	32.2	37.5	93.6
Portugal	79.7	127.3	21.0	3.7	2.6
IFC	408.5	--	--	--	--
UAE	6.0	1.1	10.7	24.7	163.5
Others	42.1	59.0	82.4	68.4	290.8
Total	1175.3	2955.1	564.3	2499.7	1770.4

* Includes portfolio investment and short-term financing for current account expenditures.

N.B.	2000	2001	2002	2003	2004	2005
Exchange rate (dh/USD)	10.6	11.2	11.0	9.57	8.86	8.88
GDP (billions of USD)	33.0	34.2	37.2	43.7	50.1	50.7

Private Foreign Investment Inflows* by Sector (Millions of USD)

Sector	2000	2001	2002	2003	2004
Industry	106.8	222.1	186.2	1994.4	239.0

Fishing	1.3	--	2.1	15.4	2.6
Tourism	12.1	29.5	10.1	34.5	190.0
Services	29.0	87.8	79.8	90.2	65.5
Transport	1.6	2.5	0.3	1.7	4.9
Public Works	7.9	13.3	0.6	7.4	11.9
Banking	67.5	31.8	35.6	8.4	186.1
Real Estate	55.0	73.0	114.9	176.7	231.1
Telecommunications	752.6	2354.8	36.3	65.6	677.3
Other	141.5	140.3	98.4	105.4	162.0
Total	1175.3	2955.1	564.3	2499.7	1770.4

* Includes portfolio investment and short-term financing for current account expenditures.

Major Foreign Investors

U.S.

Goodyear Maroc

Parent company: Goodyear
Sector: tire production
Number of employees: 600

Industries Marocaines Modernes

Parent company: Procter and Gamble
Sector: soaps and toiletries
Number of employees: 500

Jorf Lasfar Energy Company

Parent company: CMS Energy
Sector: independent power project
Number of Employees: 500
\$1.2 billion joint venture with ABB

Coca-Cola Export Corporation

Parent company: The Coca-Cola Export Corporation
Number of employees: 3200

J.R.A. Morocco S.A.

Parent company: Jordache Enterprises Inc.
Sector: manufacture of jeans
Number of employees: 1000

Delphi Automotive (former Division of GM)

Sector: auto part manufacturer
Number of employees: 1500

Kraft Foods

Sector: food products
Number of employees: 60

Other

ST Microelectronics

Parent company: S.G.S. Thomson (France)
Sector: electronic components and semiconductor manufacturing
Number of employees: 1,600

Pechiney - MMA

Parent company: Pechiney (France)
Sector: aluminum cookware manufacturing
Number of employees: 1,280

Bymaro S.A.

Parent company: Bouygues S.A. (France)
Sector: civil engineering
Number of employees: 1,000

Renault Maroc

Parent company: Renault S.A. (France)
Sector: motor vehicle assembly
Number of employees: 800

C.G.E. Maroc

Parent company: C.G.E. (France)
Sector: electric cable and transformer manufacturing
Number of employees: 675

Polymedic

Parent company: Hoechst AG (Germany)
Sector: pharmaceutical manufacturing
Number of employees: 350